



BUDGET REVIEW COMMISSION

APPROVED MINUTES

THURSDAY, JANUARY 28, 2010

**CITY HALL KIVA FORUM
3939 N. DRINKWATER BLVD.
SCOTTSDALE, AZ 85251**

PRESENT:

Louis Schmitt, Chair
Scott Miller, Vice Chair
Bob Berlese, Commissioner
Eric Borowsky, Commissioner
Martha Ecton, Commissioner
Michael Foster, Commissioner
Donna Reagan, Commissioner

STAFF:

David Smith, Interim City Treasurer
Bruce Washburn, City Attorney
Dan Worth, Public Works Executive Director
Harold Stewart, Economic Vitality Executive Director
Kroy Ekblaw, Strategic Projects/Preserve Director
Derek Earle, City Engineer
Brent Stockwell, Senior Advisor
Judy McIlroy, Budget Manager
Monica Staats, Sr. Budget Analyst

CALL TO ORDER

Chairman Schmitt called the Budget Review Commission to order at 5:06 p.m.

ROLL CALL

A formal roll call was conducted confirming members present as stated above.

1. Approval of Minutes – December 10, 2009

COMMISSIONER ECTON MOVED TO APPROVE THE DECEMBER 10, 2009 REGULAR MEETING MINUTES. SECONDED BY COMMISSIONER REAGAN, THE MOTION PASSED BY A VOTE OF SEVEN (7) TO ZERO (0).

2. 2010 Annual Ethics Training Workshop presented by the City Attorney's Office

Attorney Bruce Washburn presented the 2010 Annual Ethics Training Workshop via video.

The Commission discussed meeting protocol regarding subcommittees and working groups with Mr. Washburn.

3. Discussion and action to appoint Martha Ecton to serve on the 2011 General Plan Update Working Group as the Budget Review Commission representative

CHAIR SCHMITT APPOINTED MARTHA ECTON TO SERVE ON THE 2010 GENERAL PLAN UPDATE WORKING GROUP AS THE BUDGET REVIEW COMMISSION REPRESENTATIVE.

4. Discussion and action to appoint Scott Miller to serve as Vice-Chair

CHAIR SCHMITT APPOINTED SCOTT MILLER TO SERVE AS VICE-CHAIR OF THE BUDGET REVIEW COMMISSION.

5. Staff presentation, discussion and possible action regarding December 2009 Monthly Financial Report and Proposed Budget Adjustments

David Smith informed the Commission that the December 2009 Monthly Financial Report has already been reviewed by the Council. His presentation covered the following items:

- City payment on the Nordstrom garage reduced by \$1 million due to decreased sales
- \$465,000 of the Nordstrom savings applied to \$12.5 million in budget reductions requested by Council
- Remaining funds to be applied to the \$5 million contingency fund, leaving a fund balance of \$4.8 million
- \$7.5 million in unreserved funds
- City revenues ahead by \$1.1 million
- Sales taxes are slightly ahead of the adopted budget
- Personnel services is \$1.7 million under budget
- \$1 million in savings on contractual items

Commissioner Berlese asked how many Nordstrom garage payments the City has left to pay. Judy McIlroy indicated she would research that issue and get the information to the Commission.

Mr. Smith continued his presentation by discussing the following issues:

- Bed tax receipts are expected to be down by \$2 million
- State shared revenues will be approximately \$1 million lower than expected
- City sales taxes are expected to be \$400,000 or \$500,000 better than budget by year end
- Due to an error in budget calculations, vacancy savings will be approximately \$2.5 million less favorable than expected.

In response to an inquiry by Commissioner Ecton regarding vacancy savings, Mr. Smith explained that due to the economy, the usual 6 percent employee turnover has not occurred. In addition, many of this year's expected retirements occurred last year due to the accelerated retirement program. The original budgeted savings was \$5 million; however, the actual savings will only be approximately \$2.5 million

Commissioner Ecton expressed concern regarding the possibility of the CVB depleting their reserves. Mr. Smith stated the Council would have to decide whether to reduce the amount the City sends to them based on the reduced bed tax numbers.

Mr. Smith continued his presentation with a brief review of FY 2010/2011:

- State shared revenues will be down an estimated \$8.8 million
- No prospects of stimulus funds
- Uncertainty of state budget

Chair Schmitt expressed concern regarding strategy to address declining revenues both next year and in future years. Brent Stockwell mentioned this would be a topic on the February 25 agenda.

Vice Chair Miller asked what impact the 2010 Census would have on the City. Mr. Stockwell indicated the expectation is the City will gain in population but not in percentage, and noted a presentation on the 2010 Census efforts would be at the March meeting.

Commissioner Berlese asked if the Nordstrom garage adjustment is a six-month adjustment. Ms. McIlroy explained the \$1 million related to the savings the City would see over the entire fiscal year. In regard to the contract, the City expects full payoff by 2018.

Commissioner Berlese indicated that he is very concerned about the structural side of the budget, especially into future years.

Mr. Smith continued his presentation, discussing the difference between revenues and expenses in the General Fund to highlight the fact that the term "balanced budget" has a different meaning today than it did a few years ago.

VICE CHAIR MILLER MADE A MOTION TO ACCEPT THE DECEMBER 2009 MONTHLY FINANCIAL REPORT AND PROPOSED BUDGET ADJUSTMENTS. COMMISSIONER FOSTER SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF SEVEN (7) TO ZERO (0).

In response to an earlier question by Commissioner Ecton, Ms. McIlroy stated that compared to the adopted budget, the revised budget on the sources is \$1.1 million.

6. Staff presentation, discussion and possible action regarding proposed projects for Possible Bond Election in 2010

Dan Worth stated three objectives were developed at the last meeting in regard to the proposed Bond 2010 issuance. These included developing a list of proposed projects, obtaining guidance regarding the size of the issuance, and obtaining guidance concerning the timeline and getting the community involved in the discussion.

Commissioner Ecton asked where the City's CIP budget currently stands. Mr. Worth explained staff is working on developing it in conjunction with the bond issue. Very few changes are being entertained from what was adopted for planning purposes last year. There will be no significant additions; however, there are some potential reductions in some of the annual programmatic CIP accounts.

Mr. Worth gave a PowerPoint presentation regarding evaluation criteria as follows:

- Staff is looking for projects that would provide a payoff over time as a result of the capital investment
- A five-year planning horizon would be used for this issuance
- Other funding options such as municipal property corporation bonds and the creation of a potential stormwater utility

Mr. Worth continued his presentation by discussing proposed changes:

- Addition of projects relating to a proposed stormwater utility
 - McCormick Parkway Camelback Wash culvert
 - Neighborhood stormwater improvements
 - McCormick Park Stillman Railroad Park/Sands North 100-year protection
 - Wet crossings improvements

Commissioner Ecton asked whether any projects are planned for older communities in southern Scottsdale that have stormwater issues. Mr. Worth explained some of the streets in the southern portions of the City are actually part of the stormwater conveyance system. Standing water issues are generally addressed through street improvements, and would be included in the Transportation budget.

Mr. Worth addressed the proposals regarding public safety facilities as follows:

- Expand space in existing court and police department shared facility in order to meet short-term needs

Mr. Worth continued his presentation by discussing Transportation projects:

- Arizona Canal improvements
- Hayden/Thomas intersection improvement

Commissioner Ecton discussed recent downtown traffic signal outages, and expressed concern regarding needed repairs to the traffic control cabinets. She asked whether it should be considered as a capital improvement project. Mr. Worth assured the Commission that the project is on the list and staff does see the need for additional funding. Other funding sources are providing funds to continue to improve and upgrade the signal system throughout the City.

Mr. Worth explained no changes were recommended regarding library and park improvements.

The following proposals relate to Economic Vitality and Tourism:

- Equidome improvements that would extend the times of year events could be booked
- WestWorld \$80 million multi-purpose exhibit hall will not be considered
- Downtown parking and Civic Center Mall improvements have been packaged together into a \$26 million proposed project
- \$50 million for the design and construction of the Desert Discovery Center
- Airpark dry utility infrastructure
- Technology infrastructure, including replacing the current storage area network
- Permanently archive retained documents in order to meet state mandated requirements for data storage
- Museum of the West

Chair Schmitt asked whether an administrative and maintenance budget has been created for the Desert Discovery Center. Mr. Worth explained that anticipated operational costs have been identified. Preserve Director Kroy Ekblaw stated the feasibility study would include an extensive operating plan with budgets.

Chair Schmitt expressed concern regarding building this fixed expense into a structurally deficient budget. Mr. Ekblaw explained part of the strategy from day one has been to assure that the programming of this facility would provide revenue to support it.

Citing the importance of information technology, Commissioner Ecton stated her belief that technology infrastructure projects should be higher on the list of priorities.

In response to a concern by Chair Schmitt regarding maintaining the Museum of the West, Mr. Worth explained under the terms of the development agreement, the Scottsdale Museum of the West has committed to identifying ways to fund continuing operations, similar to the Desert Discovery Center.

City Engineer Derek Earle explained the items are not listed in priority order.

Vice Chair Miller asked for clarification regarding Museum of the West expenses. Mr. Worth explained the current budget is \$7.5 million, which the City has committed to

under the development agreement. The amount is in the CIP, with over \$6.9 million coming from MPC bonds and the rest from general funds. To date, the City has expended approximately \$1 million of the \$7.5 million to support the feasibility study and initial conceptual design efforts. That has primarily been paid for out of the General Fund.

Vice Chair Miller inquired whether the proposal regarding the parking garage near the Cultural Council facility would significantly disrupt their operations. Mr. Worth explained that due to the age and limited functionality of the existing parking structure, there is a high likelihood it would be torn down and replaced with a new garage. It would temporarily affect the businesses in that area; however, the City would commit to mitigate those issues in every way possible.

Commissioner Berlese asked if the WestWorld, Desert Discovery Center, and Museum of the West projects could be funded by a successful bed tax election, and whether the numbers presented reflect a successful bed tax question. Mr. Worth stated those projects would qualify as tourism-related capital improvements. Unfortunately, the portion of the revenue that would likely be dedicated to funding capital improvements is not sufficient to fund the projects. Other capital improvements have bed tax contributions already identified for them.

Commissioner Berlese asked how removing the WestWorld multipurpose building from the project list would affect retaining Barrett-Jackson. Mr. Worth stated Barrett-Jackson has identified this as something that is very important to them. A substantial investment has already been made in the existing infrastructure, and the City is committed to keeping that running in order to support their event and others. Substantial improvements have been made to the tent in order to extend its longevity.

In response to an inquiry by Commissioner Berlese regarding Barrett-Jackson's contract, Harold Stewart, Economic Vitality, explained the contract with Barrett-Jackson is a very old, continuous contract. The City has discussed updating the contract; however, not to include time provisions. There has been no indication from them that they intend to move or relocate.

Vice Chair Miller asked whether the \$50 million in unspent funds from the 2000 Bond issue could be used to fund the multipurpose facility. Mr. Worth explained that the funds from the 2000 Bond election were supported by the voters for a specific purpose, and cannot be reprogrammed for use on any other projects.

In response to a question by Commissioner Reagan, Mr. Worth explained there is a possibility that additional projects could be added; however, factors such as debt capacity should be considered when determining the size of the bond issuance.

Commissioner Berlese asked whether a cost benefit analysis comparison has been done between the WestWorld multipurpose facility and the Desert Discovery Center. Barrett-Jackson receives national coverage for the City and brings in a lot of revenue.

Mr. Stewart discussed the DDC and WestWorld multipurpose facility and their possible functions and benefits to the City. More time would be needed to plan the WestWorld facility correctly.

Commissioner Berlese asked whether Preserve Tax funds could be applied to construct the Desert Discovery Center and maintain operations, or whether that is an issue that must be put before the voters. Mr. Stewart explained Preserve Fund monies are being used for DDC Phase 2 work; there has been debate regarding whether to use those funds for the actual construction.

Commissioner Reagan expressed concern that the DDC does not sound like a real economic engine for the City; however, Barrett-Jackson brings a lot of people and money to the City.

Mr. Stewart explained that the tourism market is changing, and the City needs to add attractions that are uniquely Arizona, uniquely Scottsdale, and uniquely Sonoran desert. If approved by the voters, this facility could not be duplicated anywhere else in the world.

7. Staff presentation and discussion regarding the City's existing Long-Term Outstanding Debt and Debt Service Expense

Mr. Smith gave a PowerPoint presentation reviewing the existing indebtedness of the City as follows:

- \$1.1 billion in outstanding debt
- \$346 million in general obligation bonds, supported by property taxes and approved by voters
- Water and sewer project bonds, primarily financed by MPC bonds
- Preserve bonds issued for land acquisition, paid by the two voter-approved excise tax increases
- Excise taxes supported by the City's sales tax

Mr. Smith clarified that if any of the three rating agencies believed the City had too much outstanding debt, it would not have reaffirmed the City's AAA rating. In addition, the state imposes debt limitations, and the City is well within those limits. Currently approximately \$100 million is required to service the principal and interest on the City's debt.

The primary purpose of property taxes is to fund General Fund expenses; the secondary purpose is to repay whatever debt the citizens have agreed to impose upon themselves, which is currently \$35 million.

Scottsdale has placed a self-imposed cap on property taxes. They cannot exceed \$1.50 per every \$100 in valuation. Currently property taxes are approximately 70 to 80 cents per \$100.

Property taxes go predominately to the Scottsdale Unified School District needs, as well as Scottsdale Community College.

Mr. Smith discussed what a new bond issuance would mean to the City:

- \$300 million would be funded in two parts, one in 2011 and the other in 2013, each for \$150 million

- In 2013, existing obligations would have gone down from \$207 million to \$178 million
- Preserve bonds would be amortized from \$206 million to \$182 million.
- Seven percentage points of the 20 allowed by state would be used, leaving a comfortable margin
- Property taxes would be stepped up in 2011 and in 2013 when the debt is issued in order to service the higher level of debt
- The total rate would be approximately 80 cents per \$100 of valuation

Commissioner Berlese indicated he did not believe a 7 percent annual increase in assessed valuation is realistic, given the current economic conditions. He asked what a zero percent increase would do to the City's tax per \$100 of assessed value. Lee Guillory stated zero growth was assumed in year one, and five percent in year two. Seven percent per year was assumed thereafter, which historically has been a fairly conservative estimate.

Chair Schmitt asked if a stress scenario was run; i.e., flat growth for five years, with one or two percent growth thereafter. Ms. Guillory stated she did conduct some stress testing, and would provide the Commission with that data.

Commissioner Foster noted that income levels appear to be relatively flat or declining among citizens, and expressed concern that the taxpayers may not be inclined to approve large bond issues without some way to quantify it.

Vice Chair Miller pointed out that the Commission seems to agree that it would be more interested in recommending the WestWorld multipurpose facilities than the Desert Discovery Center. He suggested putting a new question on the ballot containing just the WestWorld facility to let the voters decide.

**VICE CHAIR MILLER MADE A MOTION TO RECOMMEND
ESTABLISHING A NEW QUESTION ON THE BUDGET 2010
PROPOSAL REGARDING THE WESTWORLD MULTIUSE FACILITY.
COMMISSIONER BERLESE SECONDED THE MOTION.**

At Commissioner Borowsky's suggestion, the Commission discussed whether the Equidome issue should be included in that item. Upon discussion and recommendations from staff, the Commission decided to leave the issues separate.

**THE VOTE ON THE MOTION TO RECOMMEND ESTABLISHING A
NEW QUESTION ON THE BUDGET 2010 PROPOSAL REGARDING
THE WESTWORLD MULTIUSE FACILITY PASS UNANIMOUSLY BY A
VOTE OF SEVEN (7) TO ZERO (0).**

The Commission discussed scaling back the funds requested for the Desert Discovery Center. Staff explained how the \$50 million amount was determined through a Phase 1 study. Commissioner Borowsky stated other commissions have made recommendations regarding the DDC, and expressed concern regarding second-guessing their decisions.

Brent Stockwell clarified the process going forward, indicating the next step would be going before the Council on February 16 to discuss the recommendations.

Commissioner Foster suggested Council be informed of the Commission's doubts and concerns regarding the DDC.

At the request of Vice Chair Miller, staff agreed to schedule a presentation on the DDC so the Commission could make an informed recommendation.

In response to an inquiry by Commissioner Berlese, Mr. Worth assured the Commission that there is nothing outstanding in the CIP that would be a candidate for the proposed bond list.

COMMISSIONER BERLESE MADE A MOTION TO RECOMMEND THE PROPOSED BOND PROJECTS TOTALING APPROXIMATELY \$405.3 MILLION. COMMISSIONER REAGAN SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF SEVEN (7) TO ZERO (0).

8. Discussion and possible action regarding FY 2010-11 Budget Review Timeline

Mr. Stockwell indicated the February 25 meeting will include a review of the monthly financial update; discussions on the forecast for both the use and source of funds, financial policy changes, employee benefits, and the Desert Discovery Center presentation.

On March 25, agenda items will include discussions on rates and fees and the capital improvement plan review.

There will be weekly meetings in the month of April, and a joint meeting with the City Council on May 4.

9. Review draft agenda for February 25, 2010 Commission meeting

Commissioner Berlese asked that the Commission be provided with pertinent materials ahead of time, giving Commissioners sufficient time for review and study. Mr. Stockwell indicated the Commission should receive those materials by February 18.

PUBLIC COMMENT

No member of the public wished to address the Commission.

ADJOURNMENT

With no further business to discuss, the meeting adjourned at 8:53 p.m.

Respectfully submitted,
A/V Tronics, Inc. DBA AVTranz

Reviewed by,
Brent Stockwell, Senior Advisor

Officially approved by the Budget Review Commission on February 25, 2010.